

**REPORT OF THE AUDIT OF THE
EDMONSON COUNTY
CLERK**

**For The Year Ended
December 31, 2002**



EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE EDMONSON COUNTY CLERK

**For The Year Ended
December 31, 2002**

The Auditor of Public Accounts has completed the Edmonson County Clerk's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

Excess fees decreased by \$16,322 from the prior calendar year, resulting in excess fees of \$27,685 as of December 31, 2002. Revenues increased by \$63,929 from the prior year and disbursements increased by \$80,251.

Report Comments:

- The County Clerk Should Present A Settlement To Fiscal Court
- The County Clerk Should Properly Publish His Audit
- The Fiscal Court Should Annually Set The Maximum Amount To Be Expended For Deputies' Salaries
- The County Clerk Should Keep Accurate Records To Account For Public Funds
- Lacks Adequate Segregation Of Duties

Deposits:

The Clerk's deposits were insured and collateralized by bank securities or bonds.

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AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
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Dana Mayton, Secretary, Revenue Cabinet
Honorable N. E. Reed, Edmonson County Judge/Executive
Honorable Larry Carroll, Edmonson County Clerk
Members of the Edmonson County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Clerk of Edmonson County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Clerk. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Clerk's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Clerk for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.



To the People of Kentucky
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In accordance with Government Auditing Standards, we have also issued our report dated May 7, 2003, on our consideration of the County Clerk's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Clerk Should Present A Settlement To Fiscal Court
- The County Clerk Should Properly Publish His Audit
- The Fiscal Court Should Annually Set The Maximum Amount To Be Expended For Deputies' Salaries
- The County Clerk Should Keep Accurate Records To Account For Public Funds
- Lacks Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 7, 2003

EDMONSON COUNTY
LARRY CARROLL, COUNTY CLERK
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

State Grant		\$	19,625
State Fees For Services			5,765
Fiscal Court			1,349
Licenses and Taxes:			
Motor Vehicle-			
Licenses and Transfers	\$	302,658	
Usage Tax		504,717	
Tangible Personal Property Tax		704,827	
Licenses-			
Fish and Game		7,511	
Marriage		3,531	
Occupational		29	
Deed Transfer Tax		19,067	
Delinquent Tax		92,876	1,635,216
Fees Collected for Services:			
Recordings-			
Deeds, Easements, and Contracts	\$	10,234	
Real Estate Mortgages		20,572	
Chattel Mortgages and Financing Statements		39,921	
Powers of Attorney		1,192	
All Other Recordings		11,705	
Charges for Other Services-			
Candidate Filing Fees		2,400	
Copywork/Miscellaneous		7,083	93,107
Interest Earned			1,569
Total Receipts		\$	1,756,631

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
 LARRY CARROLL, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements

Payments to State:

Motor Vehicle-

Licenses and Transfers	\$	230,343	
Usage Tax		490,510	
Tangible Personal Property Tax		271,739	

Licenses, Taxes, and Fees-

Fish and Game		7,214	
Delinquent Tax		13,624	
Legal Process Tax		12,663	
Candidate Filing Fees		1,440	\$ 1,027,533

Payments to Fiscal Court:

Tangible Personal Property Tax	\$	84,096	
Delinquent Tax		12,380	
Deed Transfer Tax		18,223	
Occupational Licenses		23	114,722

Payments to Other Districts:

Tangible Personal Property Tax	\$	316,443	
Delinquent Tax		41,237	357,680

Payments to Sheriff 1,688

Payments to County Attorney 15,362

Operating Disbursements and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	77,553	
Part-Time Salaries		1,053	
Overtime		1,000	

Employee Benefits-

Employer's Share Social Security		2,127	
Employer's Paid Health Insurance		3,600	

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
 LARRY CARROLL, COUNTY CLERK
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES
 For The Year Ended December 31, 2002
 (Continued)

Disbursements (Continued)

Operating Disbursements and Capital Outlay:
 (Continued)

Contracted Services-			
Election Contract	\$	545	
Cleaning		894	
Printing and Binding		4,818	
Materials and Supplies-			
Office Supplies		4,246	
Other Charges-			
Conventions and Travel		3,617	
Phone		2,757	
Postage		5,723	
Tax Bill Preparation		2,498	
Refunds		2,605	
Miscellaneous		4,377	
Bad Debt		280	
Capital Outlay-			
Office Equipment		5,820	
Libraries and Archives - Microfilming		19,625	
		<u>19,625</u>	\$ 143,138
Total Disbursements			<u>\$ 1,660,123</u>
Net Receipts			\$ 96,508
Less: Statutory Maximum	\$	62,259	
Training Incentive		<u>2,964</u>	<u>\$ 65,223</u>
Excess Fees			\$ 31,285
Less: Expense Allowance			<u>3,600</u>
Excess Fees Due County for 2002			\$ 27,685
Payments to County Treasurer:			
January 31, 2003	\$	21,125	
April 15, 2002		5,453	
April 16, 2003		<u>57</u>	<u>26,635</u>
Balance Due at Completion of Audit			<u><u>\$ 1,050</u></u>

The accompanying notes are an integral part of this financial statement.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Clerk's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months and 6.34 percent for the last six months of the year.

EDMONSON COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2002
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The County Clerk maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 64.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the County Clerk and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the County Clerk's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the County Clerk's agent in the County Clerk's name, or provided surety bond which named the County Clerk as beneficiary/obligee on the bond.

Note 4. Libraries and Archives Grant

The County Clerk received a local records microfilming grant from the Kentucky Department for Libraries and Archives in the amount of \$19,625. Funds totaling \$19,625 were expended during 2002. The grant balance was \$0 as of December 31, 2002.

Note 5. Overpayment To The City of Brownsville

The Fiscal Court did not receive the July 2001 motor vehicle tax in the amount of \$6,248 from the County Clerk. This payment was inadvertently given to the City of Brownsville and deposited into their General Fund Account. The County Clerk requested the City of Brownsville to refund the overpayment, so that he can then remit it to the Fiscal Court. The request was dated June 3, 2003.

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COMMENTS AND RECOMMENDATIONS

EDMONSON COUNTY
LARRY CARROLL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2002

STATE LAWS AND REGULATIONS:

(1) The County Clerk Should Present A Settlement To Fiscal Court

The County Clerk did not provide Fiscal Court with a statement of his receipts and expenditures for 2002. The County Clerk remitted excess fees for 2002 on January 31, 2003. KRS 64.152 requires the County Clerk to provide Fiscal Court with a statement of receipts and expenditures of the preceding year by March 15, each year. We recommend the County Clerk present a settlement to the Fiscal Court for the preceding year by March 15 in order to be in compliance with KRS 64.152.

County Clerk's Response:

In year 2002 receipts and disbursements were given to Fiscal Court each month. In year 2001 the court required this office to report on a monthly basis. It has been done consistently ever since.

(2) The County Clerk Should Properly Publish His Audit

The County Clerk chose to publish his audit rather than settlement as allowed by KRS 424.220. However, the County Clerk only published the transmittal letter and did not publish the financial statement and a statement that any citizen may obtain from the Clerk's office a complete copy of the auditor's report required by KRS 91A.040(7). The County Clerk should publish the advertisement of where to obtain a complete copy of the audit report, independent auditor's report and financial statement, in order to be in compliance with KRS 424.220.

County Clerk's Response:

Publication of audits was consistent with past practice (1999, 2000, 2001). Financial results have never been printed in our county paper.

(3) The Fiscal Court Should Annually Set The Maximum Amount To Be Expended For Deputies' Salaries

The maximum amount, which the County Clerk may expend for deputies' and assistants' salaries was not set by a court order for 2002. KRS 64.530 states the Fiscal Court shall set the maximum amount, including fringe benefits, which the officer may expend for deputies and assistants. We recommend the Fiscal Court annually fix the maximum amount to be expended for salaries in order to be in compliance with KRS 64.530.

County Clerk's Response:

Fiscal Court approved budget estimates for salaries each year I have been Clerk. In Year 2003 the Court by order did fix salaries for this office on deputies and assistants.

EDMONSON COUNTY
LARRY CARROLL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

(4) The County Clerk Should Keep Accurate Records To Account For Public Funds

The County Clerk was not properly utilizing receipts and disbursements ledgers, which are required by the Uniform System of Accounts authorized by KRS 68.210.

The County Clerk used daily cash checkout sheets, but the daily checkout sheets were not properly posted to the receipts ledger. The total per the daily check out sheets did not reconcile to the receipts ledger, therefore the daily bank deposits did not agree to all of the receipt records being maintained.

Disbursements ledgers were not maintained for the first six months of 2002. Monthly disbursements ledgers were maintained for the rest of the year, but were incomplete as to date, check number, and payee.

We recommend the County Clerk correctly post all daily check out sheet amounts to the receipts ledger by category and record disbursements by check number, payee, amount and proper classification in order to maintain accurate records as prescribed by KRS 68.210.

County Clerk's Response:

Check number and payee will be better identified after being given instruction from my auditor.

INTERNAL CONTROL:

Lacks Adequate Segregation Of Duties

The County Clerk's office has a lack of segregation of duties. The County Clerk performs all bookkeeping functions. The County Clerk has statutory authority to assume the role as custodian of monetary assets as well as recorder of transactions and preparer of financial statements. Due to the entity's diversity of official operations, small size and budget restrictions the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Clerk should require an employee to periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. One way to document this control would be to have the employee initial the bank deposit, daily deposit, and receipts ledger.
- The Clerk should require an employee to compare the quarterly financial report to receipts and disbursements ledgers for accuracy. The Clerk should also have this employee compare the salaries listed on the quarterly report to the individual earning records. Any differences should be reconciled. The Clerk could document this by having the employee initial the quarterly financial report.
- The Clerk should have an employee periodically compare invoices to payments. The Clerk could document this by having the employee initial the invoices.
- The Clerk should have an employee periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Clerk could document this by having the employee initial the bank reconciliation and the balance in the checkbook.

EDMONSON COUNTY
LARRY CARROLL, COUNTY CLERK
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2002
(Continued)

INTERNAL CONTROL: (Continued)

Lacks Adequate Segregation Of Duties (Continued)

County Clerk's Response:

Due to a limited number of employees, segregation of tasks will probably not happen.

PRIOR YEAR:

The following comments are disclosed in the prior audit.

- Reporting
- Lacks Adequate Segregation Of Duties

There were still problems relating to reporting and segregation of duties, so similar comments have been issued.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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**Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of receipts, disbursements, and excess fees of the Edmonson County Clerk for the year ended December 31, 2002, and have issued our report thereon dated May 7, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards and issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Edmonson County Clerk's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Clerk Should Present A Settlement To Fiscal Court
- The County Clerk Should Properly Publish His Audit
- The Fiscal Court Should Annually Set The Maximum Amount To Be Expended For Deputies' Salaries
- The County Clerk Should Keep Accurate Records To Account For Public Funds



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Edmonson County Clerk's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
May 7, 2003

